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INFO RUCNCOM/EC CARICOM COLLECTIVE PRIORITY  
RUEHCV/AMEMBASSY CARACAS PRIORITY 1689  
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E.O. 12958: DECL: 04/18/2017  
TAGS: EFIN ECON PGOV PREL BB XL  
SUBJECT: BARBADOS CENTRAL BANK: OPPORTUNITIES AND  
CHALLENGES AHEAD

REF: A. BRIDGETOWN 451  
    **1**B. 06 BRIDGETOWN 2233  
    **1**C. BRIDGETOWN 368

Classified By: CDA Mary Ellen T. Gilroy for reasons 1.4 (b) and (d).

**11.** (C) Summary: Central Bank of Barbados (CBB) Senior Director for Research, Dr. Daniel Boamah, is projecting solid growth for Barbados' economy in 2007 and no serious impact from the disappointing Cricket World Cup. The CBB plans to announce that it has revised its economic growth projections upward to 4.7 percent. At the same time, the CBB is grappling with the plans to liberalize Barbados' foreign exchange controls announced by Prime Minister Owen Arthur in his budget speech in mid-March. The CBB remains skeptical about the liberalization and expects a "shock" when the foreign exchange controls are liberalized for CARICOM transactions at the beginning of 2008. End Summary.

#### THE CRICKET EFFECT

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**12.** (SBU) On April 17, PolOff met with Dr. Daniel Boamah, CBB's Senior Director for Research. Boamah acknowledged that countries in the region were struggling with the political and economic fallout from a less than successful Cricket World Cup (CWC), which the region expected to be a significant boost for their economies (ref A). He did note that Barbados, as the host of many of the CWC semifinal matches as well as the final, might still do well in terms of CWC-related tourism and revenue. Nevertheless, Boamah was pessimistic about Barbados, or any of the other host countries, being able to recoup their significant investments in the near term. He suggested that perhaps over the next 10 years the host countries could come out ahead, but only if they can attract other major events, sporting competitions, and additional tourists to their expanded and updated facilities.

#### BARBADOS ECONOMY DOING BETTER THAN EXPECTED

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**13.** (SBU) Despite the CWC disappointment, the CBB expects the Barbadian economy to grow faster in 2007 than in recent years. Whereas late last year, the CBB was predicting 2007 GDP growth to be in the 3.5 percent range (ref B), Boamah stated that the CBB will soon revise that prediction upward to 4.7 percent. In a rare expression of disagreement with his boss, CBB Governor Dr. Marion Williams, Boamah said that he was not as optimistic as Williams about the 2007 growth

prospects because the 4.7 percent figure relied on a rosier CWC scenario than what Boamah expected.

¶4. (SBU) In discussing the recently presented government budget (ref C), Boamah agreed that the government offered almost nothing in terms of raising new revenue to pay for all the new program proposals. He noted that the 2006 government budget deficit dropped to 1.5 percent of GDP, from 4.2 percent in 2005. Boamah explained that this drop was mainly due to strong growth in revenues from the offshore financial sector, and that the government may be banking on continued growth in that sector. While Prime Minister Arthur's budget included a number of proposals to make Barbados a more attractive offshore destination, Boamah did not think that there was much room for growth in that sector or that Barbados would be able to compete with better established offshore centers, such as Bermuda and the Cayman Islands.

#### THE FOREIGN EXCHANGE "SHOCK"

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¶5. (C) Prime Minister Arthur's budget also included a proposal to liberalize gradually Barbados' foreign exchange controls, starting with CARICOM transactions by January 1, 2008. In response to a question regarding the CBB's earlier strong objections to liberalization, Boamah admitted that the CBB's concerns remain and that the Prime Minister's proposal generated a "big fight" prior to his March 14 budget speech to the parliament. The CBB's concerns are three-fold. First, the CBB is worried that once foreign exchange controls are lifted, Barbadians will rush to establish foreign exchange accounts which the CBB will have to cover with existing reserves. Second, the CBB fears capital flight, which may be attracted by higher interest rates in Jamaica or Trinidad. Finally and most importantly, the CBB views the

move toward liberalization as possibly threatening the country's longstanding fixed exchange rate of two Barbadian dollars to one U.S. dollar.

¶6. (C) Boamah is chairing a CBB committee charged with establishing tripwires that the CBB will use to respond to any problems once the liberalization comes into effect. According to Boamah, "there is no thought of letting the exchange rate float," so careful preparation will be key. In this context, Boamah noted with some satisfaction recent growth in Barbados' foreign exchange reserves. He thought that if this positive trend continued through 2007, the CBB would be much better positioned to address any threats to the fixed exchange rate. Nevertheless, he expected some sort of a "shock" during the first quarter of 2008, when the foreign exchange controls are eliminated.

#### COMMENT

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¶7. (C) The upcoming CBB review of Barbados' economy and the planned revision of growth projections should help calm some of the concerns regarding the region's CWC disappointment. Based on the discussion with Boamah, the CBB is clearly more worried about ensuring smooth liberalization of the country's foreign exchange controls. While this reform is necessary and will be welcomed by the financial sector, businesses, as well as Barbadians, it is troubling that the Prime Minister chose to disregard the CBB's concerns rather than addressing them and seeking a consensus. Similarly worrisome is the uncertainty Boamah betrayed when discussing the prospective liberalization. At various points he said "we are keeping our fingers crossed" and "we are hoping" with regard to the implementation and effects of the reform. Boamah, who is predictably cautious, may be simply hedging his bets. The CBB's careful planning in this regard is reassuring, as is the presence at the CBB's helm of Dr. Williams, whose continued steady leadership should help Barbados' economy overcome the possible challenges ahead.

GILROY